Robertson v. Commissioner, 6 T.C. 1060 (1946)

Funds irrevocably paid by an employer into a trust for the benefit of an employee are not taxable income to the employee in the year of payment if the employee's rights to those funds are subject to a substantial risk of forfeiture.

Summary

The Tax Court held that $12,500 paid by a corporation into a trust for the benefit of its employee, Robertson, was not taxable income to Robertson in the year of payment. The employment and trust agreements stipulated that Robertson would forfeit all rights to the trust funds if he voluntarily left the company, was discharged for cause, or if the Erlangers (controlling owners) didn't lose control before a specified date. The court reasoned that because Robertson's rights were subject to significant contingencies, he did not have unrestricted control over the funds and thus did not constructively receive income in that year.

Facts

Robertson entered into an employment agreement with a corporation. The agreement stipulated that in addition to his salary and commission, the corporation would pay $12,500 annually to a trust held by the American Trust Co. The trust agreement stated that if Robertson voluntarily left his employment, was terminated for cause, or if control of the corporation changed hands in a defined way before September 1, 1949, his rights to the trust assets would be forfeited. In such a forfeiture, the trust assets would be redistributed to other employees as determined by the corporation's Pension Committee. The Commissioner of Internal Revenue determined that the $12,500 paid into the trust in 1941 constituted taxable income to Robertson.

Procedural History

The Commissioner determined a deficiency in Robertson's income tax for 1941, including the trust payment as taxable income. Robertson petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether amounts paid into a trust for the benefit of an employee are considered taxable income to the employee in the year the payments are made, when the employee's rights to those funds are contingent upon continued employment and other factors?

Holding

No, because Robertson's right to receive the economic benefits of the trust was restricted due to conditions related to his continued employment. His interest was

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“charged with the obligation to remain” in his employment during the designated term.

Court’s Reasoning

The court distinguished this case from those where funds are unconditionally available to the taxpayer. It emphasized that the employment and trust agreements clearly indicated that Robertson’s benefits were contingent on his continued employment. Citing *Schaefer v. Bowers*, the court noted that even if Robertson could voluntarily terminate his employment, his rights were still conditional because his decision was

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